



“Mahindra CIE Q3 CY19 Earnings Conference Call”

October 24, 2019



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Moderator: Ladies and gentlemen, good day. And welcome to the Mahindra CIE Q3 CY2019 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Nishant Vass from ICICI Securities. Thank you and over to you, sir.

Nishant Vass: Thanks, Ali. Good day, everyone. And thanks for joining us today for the call. We apologize for the delay for the start from the time given. From the management side we are represented by Mr. Ander Arenaza Alvarez – CEO Mr. K. Jayprakash – CFO, Mr. Vikas Sinha – Senior Vice President, Strategy, and Mr. Oroitz Lafuente – Business Controller.

Now I would like to hand over the call to the management for their initial remarks. Over to you, sir.

Vikas Sinha: Thanks, Nishant. This is Vikas. Good afternoon to all of you. And good morning to those who are joining from Europe. I welcome all of you on this call, as also our CEO, Mr. Ander Arenaza Alvarez. Sorry for the delay, as Nishant pointed out, like we were having some trouble connecting.

I will present MCIE results for the third quarter of calendar year 2019, Q3 C19. Before starting with the results, I would like to state that the market scenario, both in India as well as Europe, continues to be difficult. In India, this quarter seems to have continued the trend of slowing production in the market, and this quarter has seen production closures and has been a tough quarter. Europe has also shown a decline, especially in the commercial vehicle segments. That said, MCEI has always been striving to perform better than the market. And we are happy to state that we continue with this trend even in this quarter as well. Whatever be the market condition we are always striving to be better, and I think our journey towards that goal continues.

We start with India results on Page #3, which in Q3 C19 shows growth in revenue due to the AEL integration. Organically, that is without the AEL portion, there has been a 20% drop in sales. In absolute terms, the EBITDA margin for the India business in Q3 C19 was 13.1%, EBIT was 8%, and EBT was 6.7%. We have maintained Q2 C19 margins despite a 7% sequential sales drop between Q3 C19 and Q2 C19. A word specifically about the EBITDA, the EBT has fallen disproportionately as compared to same quarter of last year, and that is largely due to FOREX losses which have been incurred in this quarter to the tune of INR 41 million as compared to the FOREX gain of INR 89 million in Q3 C18. Without FOREX, EBT drop would be in line with the EBIT drop. We have taken cognizance of the tougher market conditions and have an EBITDA margin recovery plan ongoing in India. We are aligned to the market realities and cost adjustment are being done to bring down cost to current sales level. For example, we are undertaking manpower reduction measures in many of our plants. At Bill Forge we are talking of a restructuring plan and we are looking very closely at in sourcing of some of our parts.

While we maintain that the next two to three quarters might be difficult for market demand in India, we remain cautiously optimistic. There seems to be some green shoots on vehicle registration in the festive season, and we are hopeful that the worm will turn as far as the market demand in India is concerned. Also, the company has opted for reduced tax rates announced by the Government of India, which involves forgoing of MAT credit. An amount of INR 420 million is a onetime debit in this quarter and YTD September, which is reflected in the results due to this change over on the tax rate.

On Page #4, we have the results for MCIE India's nine-month C19 performance, which shows the impact of the first three quarters. The revenue has grown INR 25,529 million, this without AEL there would have been a sales drop of 8% despite the key market segments being worse. EBITDA margin in nine-months C19 was 14.2%, EBIT was 9.7% and EBT was 9.1%. The YTD EBITDA margin is slightly reduced to 14.2% due to AEL lower margin and sales drop impact especially in the last quarter.

MCIE Europe results for Q3 C19 are shown on Page #5. In Europe too, we have performed better than the underlying market which has remained flattish for light vehicles, but the heavy commercial vehicle market has fallen by about 20%. Sales have degrown by 17% vis-à-vis Q3 C18, out of which the exchange translation impact has been 3.5%. So, the real drop in Euro terms is about 13.5%. With volume drop, there is also a drop in EBIDA margin compared to Q3 C18. In absolute terms, EBITDA has degrown 22%, EBIT by 27% and EBT by 26%. Going forward, we are concentrating on maintaining profitability levels in a falling market scenario. As mentioned earlier, the main sales drop is in the CV segment and we are working on a plan to realign the operations to the new market realities.

On Page #6 we have the nine-month C19 results for MCIE Europe. There has been a 2% fall in sales vis-à-vis the same period of C18, which is due to the exchange impact. Real sales in Euro terms has been flat, thanks to the positive first quarter of C19. And now, if we go to slide #7, we will see the consolidated Q3 C19 results which are a combination of the tougher market condition in both India and Europe, and as well as the AEL integration.

On Slide #8, we have the nine-month C19 consolidated result of MCIE, and this obviously is slightly better because of the positive first quarter, both in India and Europe, and also because of the AEL integration in the tougher second and third quarter.

In conclusion, I would like to reiterate that though the market demand remains uncertain, we believe a crisis is also an opportunity. On the back of CIE's proven business model, we are sure MCIE will emerge as stronger company once the demand stabilizes. As mentioned earlier, we have become working to adapt our companies to the new scenario, demonstrating our reactivity managerial speed and business resilience. We assure all our stakeholders that MCIE continues to remain calm in this turbulence, and we intend to build a much more robust company, one which would be well placed to grow more in favorable market conditions. Thank you very much. We can now proceed with the Q&A.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.

Jinesh Gandhi: My first question pertains to India, what is the quantum of tax foregone you have talked about, impact of deferred tax asset foregone?

K. Jayprakash: The MAT foregone is, Jinesh, 420 million.

Jinesh Gandhi: Okay. Second question pertains to this cost cutting initiatives which you had taken across Indian and Europe, which is very much relevant in current scheme of things in terms of how demand is. But with the new cost base and employee base, would we be able to service demand as and when it comes back over next few quarters, if demand recovers sharply, particularly in India, do we need to invest further, or the new base will itself be able to help us to grow faster?

Vikas Sinha: Jinesh, of course when we talk about reduction in manpower, I think it will be accompanied by productivity improvement. So, that is the key, the key is not just reducing cost, the key is improving productivity. But I will request Ander to speak on this. Ander, the question is, if we reduce people if and when the demand comes back we will be able to handle the enhance demand without adding further manpower in the future?

Ander Arenaza Alvareza: Yes. As you rightly mentioned, Vikas, our strategy is to improve our efficiency, our internal productivities, and we are preparing everything for the next growth phase that we are sure that it is coming in India. We know that we are now in, let us say, in a slowdown of the market. We do not see this market going up at least in the next couple of quarters, you can say that, this is our estimation. We think that after Bharat VI implementation probably the market will come to the normal situation. And then we are preparing ourselves to start with this to produce efficiency with this growth that everybody hopes that will come, and to be even much efficient and profitable at that time.

So, we are reducing our inefficiencies, we are making some cost cutting activities, but we are using this time to improve our processes and to prepare for the future. And you know that comparing to our European operations; our Indian operations are not as efficient as we are in Europe. And we are now working hard to align these efficiencies. So, there is a transfer of technology, there is a transfer of working networks. And with these activities we think that we will be able to improve. It is true that the drop in India has not been more than what we expected. Everybody were talking five, six month ago after the festive season the market will recuperate, it is not the case, the market continues very, very low. So, let us state that we are doing our job and we are preparing ourselves. So, let us say that even today in the Thane and Pune plants I will be in the loop and supervising all these activities that we are doing in our processes. So, I must say that we are adjusting our cost, but thinking that this will be proper pattern and we will have put up proper resources for the growth that will come in the next two, three quarters that we are all expecting.

- Jinesh Gandhi:** Understood. Third question pertains to India business again, I mean, we indicated that AEL has done about 12% EBITDA margin in this quarter. So, does it mean that the India business, ex that margins are even lower, because India reported margin are also 11.9% or so? So, adjusted for other income how should one look at that?
- Ander Arenaza Alvareza:** Vikas, can you help answer the questions.
- Vikas Sinha:** Yes. JP is taking that question, Ander. So, his question was, if AEL was at 12% in this quarter then what about the margin other than AEL in India?
- K. Jayprakash:** Yes. So, the India segment includes, Jinesh, you are have correctly said, AEL numbers and Bill Forge numbers. So, if the question is with respect to the standalone entity, yes the margins are lower because of the significant drop in volume. Like Ander said, we know the gap and we are working on it, despite the current volumes to bring back the margins in the standalone piece.
- Jinesh Gandhi:** Okay. And in Europe, despite decline in volumes you have been able to hold on to margins. So, is that reflecting in the cost cutting and productivity improvement measures which we have been talking about over last few quarters, is that fully reflected in this performance or do we expect further benefits?
- Vikas Sinha:** No. So, if you look at Europe results, I think our margins have dropped slightly. But that is really in the CV forging segment, and most of our EBITDA recuperation plan is on that side. The car forgings business and the gears off-road business is doing, they are stable, and doing as well as what they were doing earlier.
- Jinesh Gandhi:** And there focus is on reducing cost through manpower or the other measures as well in CV forging business?
- K. Jayprakash:** So, Ander, some idea on what kind of improvements are we planning in the CV forgings business?
- Ander Arenaza Alvareza:** Yes. Let us say that as we mentioned, Vikas, both let's say passenger car forgings and gears production in Italy, they are performing more or less at the standard volumes and margins. The biggest drop, and I would say that it was expected, but we did not expect to have so big drop in a short time. So, we were adjusting our cost, now we need to adjust even more. So, we are in that process. So, we are reducing and activity we have done is we have eliminated completely all the overtime and all the temporary workers, and all this activities has already been done. So, the labor force has been adjusted properly. Then we have certain activities where we are in certain plants we have plant lock downs that we in some part we are working for the Easter week instead of five days, so we will reduce the cost. And we adapt it to our capacity to the market. So, these are the kind of activities that we are doing.
- And we are now waiting for the market to see how we will react and if this challenge will remain in this situation. We will take definitive actions to adapt our capacity to our demand. So, mainly what our strategy is, we will see that the commercial vehicles market is much more volatile than

the passenger car market, and in these conditions we are going to adapt our capacity, we will reduce our production, and in this process what we will try is we will try to even improve our margins that have been, let us say, our main task in the last years. And we will continue in that geography. So, we expect to continue making this kind of adjustment of the business, reducing as a kind of downside of the business, keeping the most profitable business in-house and making the business profitable for the future, that is our main task.

Moderator: Thank you. The next question is from the line of Shrimant Dudhoria from Unifi Capital. Please go ahead.

Shrimant Dudhoria: The first question is on your sales growth as compared to your key customers' growth. So, as highlighted in your presentation, the weighted de-growth of few key customers has been about 20%, which is more or less in line with your organic sales stock. So, the margin between the industry and your sales performance is actually narrowing. So, in this context if you can explain what is the visibility of new orders in the India business which could help us better the industry performance?

Vikas Sinha: You are talking about India or are you talking about Europe?

Shrimant Dudhoria: India.

Vikas Sinha: Okay, you are talking about India. So, in India we had earlier talked about Kia which we have already started producing. And also Ford I think. So, we are also currently engaged in various new order acquisitions. But as soon as they get fructified we will be able to inform you. But there are enough plans that we have. And as we said, even in my talk before the call started that we aim at doing better than the market, and the way we do that is we keep looking for some of these orders, new products all the time. And right now we have enough in the pipeline in terms of what we are talking to the customers. As soon as they fructify we will let you know.

Ander Arenaza Alvareza: This is Ander. We are very active commercially in all the areas, and we found certain successes, especially in India. And we cannot disclose it, but we will have a new plant in India soon that we will launch, but we got a new program, once this is fully confirmed we will disclose. So, there will be in that growth activity, important growth activity in and around Bill Forge in India. Then additionally, I do not know if we disclosed it, but we are also growing aggressively in Aurangabad where we will launch a new plant, also we will make a new building in order to have grown for the growth of the new export business that we are already nominated. So, yes, I see the Indian market to grow positively with new projects in the next quarter or years. And also, we think that the market will help because I hope that everybody understands that the Indian market situation now is not normal and it's too low. The market will come back to a normal situation probably up there with Bharat VI issue is solved and after the lack of credit in the market is solved. So, once the market comes to India, we will see the growth again, that is our expectation. And of course, we are getting new businesses and new business and we will continue investing in India heavily because we strongly believe that that we will have success story in India.

Vikas Sinha: Yes. And just to add to what our CEO just said, we have mentioned it in the earlier calls, I think some of our businesses are benefiting from the trade spat that we talked about, we have talked about that. So, some of the orders which are being rerouted from China are coming to us, there are specific businesses which have benefited. And we talked about some of the Stokes business coming to the Indian plants, so that will also add to some of the things that you are saying. So, we have enough plans to grow more than the market and we are very confident of doing that.

Shrimant Dudhoria: But maybe that would help in little medium to longer term, but in next say two to three or four quarters are the current incremental orders from Kia and Ford large enough to buck the downtrend in the industry de-growth, can you perform better than the industry?

Vikas Sinha: No, it will help us perform better, it will not help us recoup a 20% or 30% drop. But yes, it will help us do better than the market. Kia has already started, Ford has already started, so we can name those orders. I think some of the other orders that we are talking about, some of them are in the next two or three quarters, for example the Stokes revenue that will shift to India. So, all those things would make a difference in the next few quarters. All of them are not medium-term.

Shrimant Dudhoria: Okay. Understood. And secondly, continuing on the cost reduction initiatives and on the manpower reduction, if you can give a broad guidance on an absolute term what kind of cost reduction are you looking at with the strategy in place, both in India and Europe?

Ander Arenaza Alvareza: Okay. The main strategy is to, when we have this kind of market reduction, for our strategy to address all our costs, the new volume needs to be infused. That means that if the volume drops 20%, we need to adapt our manpower 20%, we need to adapt our maintenance 20%. So, we need to do in the same percentage all the costs in order to maintain the margins. This is the basics of our proposals. And sometimes this is tough, because the variable cost we can do it and it's quite easy to do it. Then you have the structural costs that are more difficult to reduce. And in that structure, what we are thinking is, let us optimize our structures, let us accommodate our internal processes. But we are talking about administration, so we are talking about everything. So, in order to align the current market situation to our cost structure, so that is the kind of activities that we are performing. And I would tell you that this is also important, you know, in certain in India and in Europe, we have been able to do that, and we have done. I mean, even we had a drop of 30%, we kept the margins. So, this is a huge record and it is fantastic. But unfortunately, in other regions we are not getting in that position, that's why we lost some margins.

And our task now and our main task is to recuperate that. So, we are going to that. And that keeping in mind, always that these markets situation we think is not forever, I mean, this market situation will be limited in a time, perhaps two quarters, three quarters more, after that the growth will come. So, what we are thinking now is also that we must be prepared for the growth and have the company ready for this and growth will come. Because that will be probably, and we experienced that in 2008 and 2009 when the last big crisis happened in Europe. And most of the companies struggled in 2009, 2010 when the volumes came back, and nobody was able to produce. At that time, in theory we were in a very, very good position and we made the best period of our history after that, because we were preparing ourselves for the growth and we took

that opportunity. And I think there will be a big opportunity in India once the slowdown is over. So, that's more or less the planning, that is moral is the strategy from our point of view to manage the difficult situation.

Shrimant Dudhoria: Thanks for the detailed explanation. My last question is on the merger of the China and Brazil entities of the CIE forging business. Should one wait longer for that or is there any update on that?

Ander Arenaza Alvareza: Okay. There is no update on that. It is on our portfolio. This is something in our to-do list, it is clear. Now, as the market is moving so strangely, let's say this slowdown is creating some distortions in the valuations. We prefer to wait a little bit until the market is more or less positive and come back to this this activity. In our mind it is clear that we will do it in the mid-term. I would say not in the short-term because the situation is a little bit tricky now with the valuations, we got big drops and the volatility is not good to make a proper valuation and to have an agreement, a formal agreement. But we think that in the mid-term we will do.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Antique Stockbroking. Please go ahead.

Priya Ranjan: One is on the growth aspect. I mean, we always talk about growing ahead of industry, but so far we have been mostly growing in line with industry, I mean, some period because of the acquisition and acquisition related tailwinds. But on the core business, I mean, until and unless we increase our product portfolio significantly, we don't think that we can grow ahead of industry. So, what are we doing in terms of enhancing our product portfolio? I mean, the other aspect is like, Stokes businesses we have been talking for the last one year, I mean, still after a year we have not been able to transfer the business to India. So, how do we look at it? I mean, do we think that probably the management's effort and time or energy is more diverted towards acquisition rather than growing organically?

Ander Arenaza Alvareza: No, I don't think we are focusing more on acquisition or inorganic growth. The organic growth will happen and we are working very hard to continue to grow. I would say that is true that in in certain businesses, let's say, that we were aligned with the market. So, we did better than the market. We are now trying to change that, and we are trying to gain some share of business in the in the market, this is our main activity in this short-term. I am personally involved in these activities with our main customers to try to recuperate our additional part of the business. This is something that is a big priority for us because it is business in the short-term, and we need this business in the short-term. And then also we are focusing on the strategic high added value products that we produce here in India. We are succeeding in certain components, and I hope that in a very short-time we will be able to disclose a couple of big new projects with strategic projects for CIE. Okay, so we are talking about rails, we are talking about drive-line components, we are talking about these kind of the high added value components that we are producing in Europe, and we are transferring to India. And we are very close to get that done soon. Yes, we are worried because in certain businesses we did not perform better than the market, but we are working on that and building pressure to increase our share of business. And we are also working in the

future, I mean, we are working in the higher end value components where we can differentiate ourselves and we can produce CIE high end value products in India also. So, that's the commercial strategy and we are fulfilling that. I am sure that we will succeed in the future.

Vikas Sinha:

Priya Ranjan, with your permission, can I say something, you know, which will put a light on what you are saying? It is certainly not true that we priorities acquisitions over organic growth. Even in the acquisitions that we have, and we can take Bill Forge as an example, which is now fairly three years old. When Bill Forge was acquired it was probably in the range of Rs. 575 crores to Rs. 600 crores, today it is much higher than that. So, a lot of organic growth in Bill Forge has happened after the acquisition was made, and with contributions from the CIE team globally. So, even at Bill Forge a lot of organic growth has happened. Even at AEL, Ander did talk about a lot of organic opportunities that they have. And in fact, AEL is doing very, very reasonably in a bad market. So, there is a lot of focus on organic growth, even in the acquired companies. As far as the Stokes order is concerned, I don't think we are delayed in that, the Stokes operation was, even though all the financial cleaning up was done in the last calendar year, the operation stopped around March 31st of this year, there was an inventory build-up and then the transfer of parts was happened. So, it is happening as per sequence. So, there is absolutely no delay in which it was done. So, there is no problem on it. And it will be reflected in the Bill Forge numbers. So, that is really not an issue.

Coming to our core businesses, yes, as Ander pointed out, there are some older businesses that are lacking,. And then some of the older businesses are doing reasonably well, you know, we have talked about what gears and magnetics have done in the past. So, there are certain areas that we are focusing on. But let me reiterate with all seriousness that we are really focused on growing all our businesses organically, we are not looking at acquisitions to fill any growth target. Acquisitions are there, we have used acquisitions to only fill our capability gaps, acquisitions are for filling capability gaps. When we did Bill Forge, it gave us capabilities in the two-wheeler segment, it gave us capabilities in the drive-line segment, it gave us some of the very good export orders, especially Ford, it gave us capability in warm forging and cold forging. When we did AEL it filled up our capability gap in aluminium. So, we have neither done Bill Forge or AEL for growth purposes, we have done it to fill our capability gaps. It is true that building Bill Forge and AEL have also grown organically after we have taken over. So, please be reassured that we are very focused on growing each of our businesses. Yes, there are some businesses which lag, Ander has pointed that out very clearly, and we will keep on working on those.

Priya Ranjan:

And in terms of when AEL acquisition has happened in presentation you had mentioned about gravity die-casting opportunity in India, because...

Vikas Sinha:

In Europe, gravity die-casting opportunity in Europe.

Priya Ranjan:

Yes, I mean, export from India, basically I am talking about. Some shift because of the environmental issue, etc. So, can we throw some light in terms of what kind of opportunity it can get created or some orders we have won already in that sense?

Ander Arenaza Alvarez: Okay. Let's say that there is a big marketing activity from our commercial guys in Europe to let's say opt in this gravity and die-casting businesses for AEL in Europe, okay? First, I think next week I think there is a big meeting with one of our main customers to continue developing their basis. In fact, we have a huge investment plan for AEL to accommodate all the machinery that we need for this growth that is coming from Europe. So, the growth is there. If you look at, let's say, the AEL businesses, more or less it's not growing. Also in Bill Forge we are not losing business, in Bill Forge we expect to be flat year, both in Bill Forge and AEL. So, that means that we are performing much better than the market in those activities. So, the point for us is, we have this plan to grow and to export from AEL and that is what we are doing right now.

Also, two weeks ago we brought team of aluminium casting experts from Europe to India, where they made a complete analysis and a workshop with the local team. And we have set certain actions in order to make this technology transfer. So, all this technology transfer, commercial synergies, all of this is already organized and is working perfectly. We expect to continue growing heavily in Aurangabad Electrical in the next year. Probably this market slowdown has, let's say, reduced our expectations in the short-term. But in the long-term we continue with the same idea. And that's our strategy for Aurangabad. And the support of the European experts is also very clear. We are now planning to move some engineers from India to Europe to retrain. We are talking about team of engineers to be fully trained in a couple of years in Europe. We are also transferring engineers from Europe to India in order to teach on the ground and on the shop floor to show and to implement our procedures in our plants.

So, these activities are working perfectly. And I think that we will have the same numbers in India than in Europe in the next year. That is our strategy to have some very efficient and let say very positive companies also in India. And that is CIE's success, having very lean, efficient and profitable plants. And we are copying our structure, our model in India. So, that's what we are doing now, and I think that all this will show results for sure.

Vikas Sinha: Priya Ranjan, just I will add to what our CEO said. All these things have actually started to bear fruit at AEL. You know, AEL is the most stable of our businesses in terms of revenue growth terms. So, whatever we have told you it's working.

Priya Ranjan: And just two things, one is the CV forging business of Europe. So, we have earlier talked about the rationalization of products. So, this 20% drop in CV forging businesses is also because of the result of that, or it's just the link to market only?

Vikas Sinha: No, for this quarter it is linked to the market.

Priya Ranjan: Okay. And the gradual reduction process, etc., is still on way are you are continuing with whatever products you have in the process?

Vikas Sinha: Ander, the question is, are we still looking at reducing the MFE product portfolio?

Ander Arenaza Alvarez: Okay. What we are doing, the main drop that we have in this quarter is coming from the market reduction. But it is true that finally we are eliminating the less profitable components or we have certain parts of our portfolio that are loss making components, we are getting rid of them. So, we are concentrated in the future and profitable products, and yet that's why we see that these reduction will continue in the next quarter, because we have market drop, plus these adjustments that we are doing in the product portfolio. The main drop is coming from the market.

Priya Ranjan: And one last question is on, I mean, if I look at the CIE portfolio and your portfolio, I think plastic is still one missing part. So, how do you want to address it with acquisition or whatever, or greenfield, because now the market condition is also bad, so probably you might get some good opportunity in terms of some acquisition in that field to have that capability which is still lacking in India, so any thought on that?

Ander Arenaza Alvarez: As you know, you are right. I mean, the strategy we have is to have the all the technology of CIE also in India. So, as you correctly mentioned, plastic is still missing in our portfolio, and we are actively looking for that. And yes, let's say that our main priority was to add aluminum, we added AEL on April. So, now we are preparing all this intermitting AEL and working to have AEL according to our management model and organization. And step probably will be to add a plastic company. Yes, we are quite active on that, if we see any opportunity, we will go for it.

Moderator: Thank you. The next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.

Sandeep Baid: We have often talked about our target on margins and return on net asset as part of our medium-term strategic plan. I want you to understand whether we have an internal target on the revenue front as well from a medium-term perspective.

Vikas Sinha: Sandeep, we always say that it will be relative to the market. So, we always try and grow faster than the market. We don't have any absolute revenue targets.

Sandeep Baid: Okay. Secondly, say the medium-term as and when the forging capacity inflation goes down because of the growth of electric vehicles, would we be open to using those facilities for non-automotive products?

Vikas Sinha: No, that is a very long-term perspective that we are talking about. As of now I don't think electric vehicles is making an impact. But if and when, as you are rightly pointing out, if there are capacities and capacities can be used fully, we will look at all options.

Ander Arenaza Alvarez: Just one comment from my side, I mean, our business is in automotive side, in this moment our plan is to stick to strictly to the automotive business. Because we see that even though this electric vehicle will come, they will come slowly and they will come probably in other different districts, in different regions in the world. We don't see electric cars in India in the next 10 to 15 years, because of all the infrastructure would need to be implemented. We don't see that either in the American market, perhaps in Europe it will come a little bit faster. But there will be a

consolidation of the market and we think we will be prepared to be the winners in this consolidation, that's our view on that.

Sandeep Baid: Okay. And just a couple of questions on the financial side. We mentioned that we have moved to the new tax regime in India. So, going forward, what would be the guidance for the tax rate on a consolidated basis for the company?

K. Jayprakash: You can look at 24%, 25%.

Sandeep Baid: And lastly, can you give us figure for cash from operations for the first nine months for CY19?

K. Jayprakash: We had generated close to about Rs. 3.5 billion.

Sandeep Baid: This is cash from operations?

K. Jayprakash: Yes.

Sandeep Baid: And how much would have been the CAPEX this year?

K. Jayprakash: This is net of CAPEX.

Sandeep Baid: Okay. So, can you give me the figure of CAPEX for this current year nine months?

K. Jayprakash: Both maintenance and growth CAPEX put together we were about Rs. 3.2 billion.

Sandeep Baid: We generated broadly about Rs. 700 crores from cash from operations in our first nine months?

K. Jayprakash: Yes.

Sandeep Baid: Okay. And going forward for the next three months and for next year what is the CAPEX plan?

Ander Arenaza Alvarez: For the CAPEX obviously, our target is to invest more or less 5% of our sales. That is how we get our CAPEX amount.

Moderator: Thank you. The next question is from the line of Nikhil Kale from Axis Capital. Please go ahead.

Nikhil Kale: First, a housekeeping question. You mentioned the margin for AEL, could you help me out with the revenue for AEL in this quarter?

Vikas Sinha: For the quarter it has been Rs. 2.2 billion.

Nikhil Kale: Thank you. Secondly, just wanted to understand, I mean, we cater to different segments, PVs, two-wheelers, CVs, off-highway. So, in terms of, what is your outlook for these different segments over the next 1, 1.5 years? And which segment do you think you would see a faster

revival happening in which segment? And how do you see your growth over there, I mean, in what segment do you feel that your growth, your performance would be higher?

Vikas Sinha: Nikhil, let me first tell, our main segments are PVs in India. We are talking about India I assume?

Nikhil Kale: Yes.

Vikas Sinha: So, in India and main segments are PV, which is the largest; then we have tractors and two-wheelers which are also fairly significant; and a small portion is LCVs and MHCVs, in that order. So, you have these three distinct groups, LCVs, MHCVs, tractors and two-wheelers in a certain range, and PVs which is the largest. So, essentially our three main segments are PVs, tractors and two-wheelers. To your question, what happens to the outlook? I think it is very difficult to project the outlook. So, internally also we are looking at it more from an internal efficiency, whatever is the market. Lets try and adjust our operations to the market. This is exactly what Ander has been talking about throughout.

Having said so, like, we do think that once the BS-VI thing settles down, both PVs and two-wheelers, then we would know what is the exact demand that is there, so at least the demand will stabilize, that is our expectation. So, that perhaps will take another two quarters, maybe. Tractors have actually not been bad this quarter. Tractor has been fairly decent. But Tractors is a little bit seasonal in nature, as you are aware, the first quarter of this calendar year the tractors were very good, then they came down, then again, they are a little bit up this quarter. So, they are a bit of a seasonal thing. But we know that the monsoons this year has been good. I think the rural incomes are also creeping up, the government is also talking about increasing the MSP, so that will perhaps have a positive impact on the tractor market.

As far as PVs and two-wheelers are concerned, I think the PVs we are seeing some green shoots, because I think the inventory situation at least four passenger vehicles is under control in the supply chain. Two-wheelers, I think the inventory is still a little bit on the higher side, but I think there is an expectation of demand. So, we do see there are some green shoots, but I would not hazard any outlook at this point of time, rather we are going it the other way, whatever the market offers we will try and adjust ourselves to the market situation. That's the way we are looking at it.

Nikhil Kale: Lastly, just on the stampings division. I think last quarter you had mentioned that you were looking at adding new customer, because you were primarily supplying to Mahindra. So, is there any update on that? I think you had mentioned that you were in last stage of negotiations with certain customers, so any new order wins from that side?

Vikas Sinha: Ander, anything on the stampings division, essentially Kanhe 2?

Ander Arenaza Alvarez: I didn't gear the questions; sorry the voice was very, very weak.

- Vikas Sinha:** So, Nikhil basically is asking that in the last quarters I think we have mentioned that stamping we are looking for non-Mahindra customers, and we were negotiating with a few. What has happened to those negotiations?
- Ander Arenaza Alvarez:** Okay. We would with the negotiation with the customers. We do know that we had a new greenfield, what we call Kanhe 2. And we have there new press line ready for the start of production, I mean, at the end of the year we will be ready to start. So, our idea is to fulfil those capacities, then new capacity we created. And we are still negotiating with several customers and it is true that in this market scenario the situation is more difficult. We expect that to succeed a little bit earlier, we expect to have this new programs already nominated, but due to the specific market situation in India, everything is a slowing down. So, let's say that we have not confirmed anything, we will continue fighting on that.
- Moderator:** Thank you. The next question is from the line of us Yash Gupta from Prince Pollyplast. Please go ahead.
- Yash Gupta:** Sir, my question is on the AEL part. Any benefit AEL provided to us other than the inorganic growth, any new customer add due to it and any update on the export from AEL?
- Vikas Sinha:** Bajaj is the major customer for AEL, so now Bajaj has become one of our key customers in India. So, that it has added, it has provided us diversification in the aluminium sector. So, that is the reason why we had done the acquisition, to add that capability that was missing in our portfolio. As far as exports is concerned, I think Andres has already referred that GDC exports to Europe we are working very closely on it. In fact, some of it has already borne fruit. I think AEL is the most stable of our businesses. As JP mentioned, there has been no sequential drop in AEL volumes.
- Yash Gupta:** Sorry to interrupt in the middle. Sir, my question is that, AEL has given us the diversification in our overall portfolio. But is that any customer of AEL has been shifted to our main business also towards Mahindra CIE Indian business?
- Vikas Sinha:** I don't think that was the reason why we did the acquisition. As I said, Bajaj is the main customer of AEL, Bajaj also happens to be a customer at Bill Forge. We were not looking at that transfer that you are talking about. We are looking at growing the AEL portfolio through GDC exports to Europe, which is exactly what we are working on, which Ander has already talked earlier in the call.
- Yash Gupta:** Okay. Sir, second question is, any production day cut we have taken this quarter?
- Vikas Sinha:** Yes, at some of our plants we are looking at managing our production capacities in that fashion. At some of our plants we have done that.
- Yash Gupta:** Any quantum in days, like 10 days, 15 days?

- Vikas Sinha:** It will be different at different plants, so it would be very difficult to say up to a week in a month is what I would say, but it will be different for different plants. So, there is no general rule that every plant has to go through that. We have many plants, more than 20. So, every plant depending on the local quantum of orders, but everybody is managing the production in that fashion.
- Moderator:** Thank you. The next question is from the line of Jigar Shroff from Financial Research Technologies. Please go ahead.
- Jigar Shrof:** So, first of all, I wanted your opinion, I mean, would it be fair to say in that in terms of our performance, Q3 of calendar year 2019 was a tough quarter for both India and Europe? That is my first question. And would the scrappage policy that is much talked about, what kind of impact do you foresee towards that? And what is the net debt position as of 30th September? Thank you.
- K. Jayprakash:** So, we are about Rs. 13 billion in terms of net financial debt.
- Vikas Sinha:** Then coming to the scrappage policy, of course, if and when scrappage policy comes I think, you know, anything that helps demand is always useful for us. we are one step removed from the actual demand. So, scrappage policy would certainly help revive the retail demand. So, it will be beneficial as and when it comes.
- In terms of your first question, was Q3 C19 a tough quarter in terms of have we seen the worst? Hopefully. I think, especially in India, we do think that it was an extremely tough quarter. But we do think that the coming quarter will also be difficult. So, yes, I think it is one of the toughest quarters that we have seen for some time now.
- Jigar Shrof:** And Europe?
- Vikas Sinha:** Europe, I think, we have to understand that August is a washout in Europe, August is completely closed. So, it is essentially a two month quarter. So, that seasonality we have to bear in mind. In Q4, again, you will have 15 days of December when Europe will be closed. So, that will be a 2.5 months quarter. So, that seasonality is there. H1 in Europe is always that way from a revenue perspective better than H2.
- Jigar Shrof:** But that is an every year affair, right?
- Vikas Sinha:** Yes, that is an every year affair. But, the drop has an impact on the margins, depending on how much drop happens. Because there are stock consumptions that happen during this quarter. the margins get affected a little bit depending on how much drop happens in these quarters. So, that is something that we have to bear in mind. Q4, will it be better or worse, really don't know. Let us not comment on that. But yes, Q3 has been a very, very tough quarter, no doubt.
- Jigar Shrof:** So, for India you are looking at a recovery from the second quarter of calendar year 2020, onwards from there?

Vikas Sinha: We do think that the demand situation will become clear by then. At least right now a lot of the situation, especially in India, it is not clear what is driving what, whether it is the crisis of lending, or whether it is the whole BS-IV, BS-VI inventory situation, when the BS-VI models will be launched, most of the BS-VI models will probably start coming in January, mid-January. So, at least by then all these factors will be behind us, and then we will know exactly how much is the customer buying. So, that will make at least the situation clearer. That is what we are saying

In terms of quantum of the demand, frankly speaking, none of our customers are willing to speculate, it's very difficult. So, as we said, we are trying to not bother too much about what the demand situation is and adjust our internal efficiencies accordingly, that's what we are focusing on.

Jigar Shrof: And sir my last question, any thoughts on the dividend distribution policy?

Vikas Sinha: Dividend distribution! JP? I think Ander has disconnected, but till then...

K. Jayprakash: No, I think it is still in preliminary stage of discussion. So, we will come back to you.

Vikas Sinha: Jigar, as soon as Ander comes back on the call, we will take this dividend distribution question to him before we go on to any other question, as and when he comes back.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Geojit Financial Services. Please go ahead.

Saje John: My question pertains to, as you said that you are concentrating mainly on filing the capability. But I just want to know like, can you quantify like what is a new product development in the organic business, like what is the percentage if you can say?

Vikas Sinha: Look, I would not like to name a particular number, but the way we budget ourselves there is a certain... every business looks at budgeting a certain amount of sales to come from new products, new customers every year, that can range from 5% to 15%, that is something that we look for in our budget every year. But I would not like to give a specific number, every business works towards that. So, in the budget that's the way we tackle it.

Saje John: You are in line with your budget for the research and the development?

Vikas Sinha: That is the question that I would say is a forward-looking statement, I would not like to make. I am saying this is our process. where we are today, the market situation, etc., as I said, we are comfortable that we will do a little better than the market, we are comfortable on that.

Moderator: Thank you. The next question is from the line of Bharat from Quest Investments Please go ahead.

Bharat: Since Ander is not on the line, so if you can update on this.

Moderator: Sir, he is back.

- Vikas Sinha:** Bharat, just before we go to your question, with your permission, can I request Ander to talk about dividend?
- Bharat:** Okay, great.
- Vikas Sinha:** Yes. Ander, there was a question around the dividend distribution policy and what is our thinking around it. So, I think we just said that we are going through internal discussions, but if there is anything further you would like to add before we go on to Bharat.
- Ander Arenaza Alvarez:** This is something that we have in our internal discussions, because you know that in 2019, we made this Aurangabad AEL. So, we used all our internal cash for these acquisitions. You know also them we have already commented several times that as we are a foreign entity in India, we cannot borrow money in India to buy shares of a company. That means that we need to do with our equity. And that is a big limitation, so we need to provide equity and our cash to these opportunities of acquisitions. So, we expect that these limitations will be eliminated by the government, I mean, we know that there are discussions on that, and we hope this will happen. So, we will have less limitations. But, on the other hand also we think that this dividend request is there from the shareholders, we are internally analyzing between the promoters to decide if we implement it or not. So, this is something that is on the table from the shareholders and we will come back soon to the people and to the market.
- Vikas Sinha:** Okay. Bharat, sorry, I interrupted you, you were asking a question.
- Bharat:** Fine. So, Ander, we said that in Q2 there was a drop in the CV segment, PV was doing well in Europe. Now with WLTP norms coming in, that too coming in place from October, so can you give some sense directionally how the PV will fare and any further update on the CV side also directionally or for next couple of quarters?
- Ander Arenaza Alvarez:** Okay. It is difficult to predict now what's going on, but what we expect is that passenger car will remain flat more or less, that is a speculation or with a slight reduction that is the information that we are gathering from the market. And commercial vehicle had a big drop, I would say, the drop started at the end in May, June, and this drop is still continues. So, let's say we see flood the market until the end of the year, and then let's see if there is any recovery. And we hope that certain measures from the government will be taken in order to promote the automotive market. And someone commented before, the scrappage system, that I think that it can be a very good option or solution to replace the old cars and the most contaminating cars from the market, and replace them with a clean car. And this is something that probably all the norms of governments will apply in the future. So, this would be a good opportunity to revamp the market again.
- Bharat:** Okay. And second thing, I mean, Vikas, in your initial remark you said that we are restructuring Bill Forge business and also second method is that in-sourcing. So, can you elaborate more on it and how it will play in margin perspective?

- Vikas Sinha:** As I said, we are trying between Q2 and Q3 we pointed out that we have, in spite of a drop, we have made sure that the margin drop is not as much as the volumes. And these are some of the measures that we have taken. When we say in-sourcing is we are trying to utilize internal capacity as much without subcontracting. So, that's the focus area and it is something that we will continue and hopefully be able to make sure that our margins don't drop in spite of the volume drop. As far as Bill Forge is concerned, I think in the notes of our results we have made a provision on the VRS, which is about \$128 million, so there we have this structured program that will help us maintain our margins.
- Bharat:** And any update on the Bill Forge Mexico plant?
- Vikas Sinha:** Ander, can I request you, Bill Forge Mexico?
- Ander Arenaza Alvarez:** Yes. You know that in our Mexican plant we have been struggling as a greenfield to make the proper ramp up in terms of efficiency, quality and so on. We had the last two years we were working very hard, we sent in a team of engineers from Spain they were working there. And I would say that from beginning of this year we have consolidated and we have sold most of our problems in plant and the plant is running properly. I would say that the volumes are also coming up and we are now selling approximately double than the previous year, so we have we have doubled the output of the plant with the positive margins. But we are still far from our expectations, so we think there is a room for improvement. So, we are now discussing with our customers, we have included one additional customer to the portfolio in our Mexican plant. And what we expect is to continue growing there in the next year. So, we are in possession, now the situation is perfectly under control with most production, and with a growth trend. So, yes we are quite satisfied but we need to continue growing and we need to continue growing there.
- Bharat:** Earlier we were looking for CY20 from Mexico plant run rate of something, I don't remember, but are we still on the same number and EBITDA margin?
- Ander Arenaza Alvarez:** Okay. The EBITDA margin, we are already above the double digits. I mean, this is where we are already and the total turnover of the planet can be something like \$14 million, something like that.
- Moderator:** Thank you. The next question is from the line of Shrimant Dudhoria from Unify Capital. Please go ahead.
- Shrimant Dudhoria:** Just a clarification. The FOREX movement is shown in which line item in the P&L?
- K. Jayprakash:** It is part of the financial expenses. You are looking at the SEBI format?
- Shrimant Dudhoria:** Yes, the consolidated P&L numbers if I have to look at that, the SEBI format.
- K. Jayprakash:** So, it will be part of the financial expenses.

- Moderator:** Thank you. The next question is from the line of Priya Ranjan from Antique Stockbroking. Please go ahead.
- Priya Ranjan:** Another question is, Vikas, you have highlighted that probably you are looking at some trade tailwind from China, some business moving from China, etc. So, do we have some kind of a model, or have we got some or we are working in that direction?
- Vikas Sinha:** Our gears and magnetics business are benefiting.
- Priya Ranjan:** So, we have already got some?
- Vikas Sinha:** Yes, we have some benefits.
- Priya Ranjan:** And do you see in forging etc. also it can percolate to?
- Vikas Sinha:** Not with our current portfolio. I think these two businesses will benefit the most, gears and magnetics.
- Moderator:** Thank you. As there are no further questions, I know hand the conference over to the management for the closing comments.
- Vikas Sinha:** So, thanks friends for being patiently listening to whatever we have to say. In closing, I think, we can reassure you that as a company we are very focused on our core strategy of improving operational excellence. And I think whatever be the market situation, we will continue to be doing that. Our results, and somebody said that it was the toughest quarter in some time, I think we agree, and it is largely down to the market. But we have not deviated from our original strategy of focusing on operational excellence and we will continue to do that. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.